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SUBJECT: DIKO LEADER CLASHES WITH PRESIDENTIAL PALACE

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1. (SBU) SUMMARY: The recent appointment of controversial "insider" Kikis Lazarides as the executive chairman of troubled state-controlled Cyprus Airways has sparked a new round of bickering between the Presidential Palace and leaders of the three-party governing coalition. Party chieftains initially directed their criticism over the "ill-timed and incorrect" decision on Lazarides toward Finance Minister Michael Sarris; the clash evolved, however, into a power struggle between President Tassos Papadopoulos and DIKO leader Marios Karoyian over appointments to Cabinet and parastatal corporation positions. Underlying enmities among the coalition partners have been exposed by the spat, since neither AKEL nor EDEK came to Karoyian's defense, perhaps in hopes of bettering their own coalition fortunes as DIKO's dropped. Karoyian's decision to take on Papadopoulos -- the party's former head -- appears an attempt to solidify his own position; all indications show it backfired. END SUMMARY.

A Dubious Selection Meets Criticism

2. (SBU) Reactions were almost all negative to the March 28 appointment of Kikis Lazarides, the former chairman and CEO of Laiki Bank, as the new executive chairman of Cyprus Airways. Lazarides, 72, held the same position at the struggling national carrier from 1989 to 1993. His critics lambasted Lazarides's conduct and performance while running the airline, claiming he regularly extended favors to friends, political allies and family, all the while ignoring the core elements of his position. Opponents of the appointment also claim the septuagenarian is over-extended currently; in addition to the new gig at Cyprus Airways, he also acts as chairman of the University of Cyprus, the Cyprus Olympic Committee, and the Cyprus Culture Foundation.

3. (SBU) Lazarides's forced resignation from the chairmanship of Laiki Bank in 2006 (Reftel) came amid accusations by the incoming Laiki leadership that he had abused his position for personal gain and granted favors to influential politicians and friends. Among the many allegedly on the receiving end of the chairman's largess were Papadopoulos and current Finance Minister Michael Sarris, whose appointment in August 2005 Lazarides had strongly backed.

Parties Blast Sarris, Then Change Targets

4. (SBU) Coalition partner AKEL focused its criticisms of the appointment mainly against Sarris, since the Finance Minister had recommended Lazarides to the Council of Ministers. Sarris has long

been an AKEL enemy, most recently earning the Communists' ire for shepherding Cyprus's entry into the Eurozone and pushing for a higher retirement age. In its criticisms, AKEL did not openly question Lazarides's ability to resuscitate nearly-bankrupt Cyprus Airways, but rather noted there were others better-suited for the job who did not hold three other positions. The party called on Lazarides to abandon his other jobs.

15. (SBU) Employing harsher language than AKEL, DIKO slammed Sarris for the appointment. The criticism would later morph into a battle between party leader Marios Karoyian and the Presidential Palace. Karoyian reportedly had submitted to the Palace a list of DIKO's own candidates for the Cyprus Airways slot, which was completely ignored. The DIKO chief claimed that Sarris had deceived the Council of Ministers by leading members to believe he had consulted with the coalition parties before nominating Lazarides. Karoyian also expressed doubts whether the 72-year-old, known for his "old school" business practices, was up to the task of heading the national carrier.

A Strong Defense Hangs Karoyian Out to Dry

16. (SBU) Papadopoulos came to Sarris's defense, arguing that only the President could be held accountable for the decisions of the Council of Ministers. He dismissed criticisms against Lazarides, claiming the chairman had both the experience and knowledge to protect Cyprus Airways. Papadopoulos's intervention and a consequent statement by Government Spokesman Christodoulos Pashiardis, stressing that the President had the absolute authority to appoint any person to head the airline, further incensed Karoyian. Abandoning his normally mild manners, Karoyian argued that DIKO and its coalition parties had the right to express their opinions on appointments in the semi-government sector.

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17. (SBU) Karoyian found no support among his coalition partners in his supposed bid to "protect" their rights. On the contrary, EDEK leader Yiannakis Omirou accused DIKO of hypocrisy, asserting that Sarris's lack of party affiliation made him an easy target and a punching bag. AKEL leader Dimitris Christofias retreated from his party's earlier position and stated that the President enjoyed authority to appoint the boards of semi-government organizations. Even a smattering of prominent DIKO leaders, including Cabinet members, sided with the Presidential Palace despite the party's official position backing Karoyian.

Why Pick This Fight?

18. (SBU) Political observers believe Karoyian's rebellion had two purposes. First, it was meant to please disgruntled DIKO members who complain that the Palace takes DIKO support for granted and ignores the party's requests while, in contrast, it is always generous with AKEL. During his party election campaign last year, Karoyian committed to fighting for a bigger share of government appointments for DIKO. Second, experts believe that Karoyian was attempting to move out from Papadopoulos's shadow -- the President only relinquished DIKO's reins last year -- and start building his own power base.

19. (SBU) COMMENT: Karoyian erred in waging this war. While he might have satisfied a few discontented DIKO-ites, his efforts brought him heavy criticisms from the usually sympathetic media, coalition partners, and some DIKO leaders. Further, many argue that Karoyian targeted Sarris solely from fear of taking on Papadopoulos, the real architect of Lazarides's appointment. Rather than escaping Papadopoulos's shadow, Karoyian emerges a weaker leader from this unsuccessful "rebellion." The likely upshot of the tiff in terms of coalition politics is that DIKO, whose members have no choice other than to support Papadopoulos, will be forced to yield more slots and chits as AKEL and EDEK demand more and more from a president who must retain their support to win re-election. END COMMENT

